BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT	Docket No. R2013-1

UNITED STATES POSTAL SERVICE
NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT
(October 11, 2012)

Pursuant to section 3622 of title 39 and 39 C.F.R. part 3010, the Postal Service hereby provides notice that the Governors have authorized the Postal Service to adjust the prices for its market-dominant products. This adjustment will take effect at 12:01 a.m. on January 27, 2013, and affects all the market-dominant classes. In this Notice, the Postal Service provides the information required by Rule 3010.14, including a schedule of the new prices, which is provided in Attachment A.[1]

The Postal Service certifies that it will inform customers of these price adjustments, as required by Rule 3010.14(a)(3). In addition to this Notice, the Postal Service is publishing notice of these price changes on USPS.com, the Postal Explorer website, and the *DMM Advisory*, as well as issuing a Press Release announcing the changes. Thus, widespread notice of these prices is being given prior to their planned implementation date. Furthermore, the Postal Service plans to provide public notice of these price changes in future issues of the *PCC Insider*, *MailPro*, *Postal Bulletin*, and *Federal Register.*

[1] Attachment A also contains the proposed Mail Classification Schedule changes.

The Postal Service, pursuant to Rule 3010.14(a)(4), identifies Mr. Greg Hall as the official who will be available to provide responses to queries from the Commission. Mr. Hall's contact information is as follows:

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The remainder of this Notice is structured as follows. In Part I, the Postal Service discusses its compliance with the price cap, which limits the average percentage price increase for each class of mail. In Part II, the Postal Service describes several temporary promotions that it is proposing as part of this filing, and explains how it has integrated a portion of the revenue loss from these promotions into the price cap calculations for First-Class Mail and Standard Mail. In Part III, the Postal Service provides a more detailed discussion of its prices, including the "workshare discounts" associated with the new prices. It also explains how the prices are consistent with the objectives and factors of section 3622, and the preferential pricing requirements of section 3626. In Part IV, the Postal Service describes the changes to the Mail Classification Schedule (MCS) related to this price change.

I. Price Cap Compliance

In compliance with Rules 3010.14(b)(1) through (4), the following section discusses and describes the applicable CPI-U price cap, the amount of unused price adjustment authority available for each class of mail, the percentage change in prices for each class of mail, and the amount of any new unused price adjustment authority generated by this price change.

A. Inflation-Based Price Adjustment Authority

Based on the most recently available data from the Bureau of Labor Statistics, the Postal Service has inflation-based price adjustment authority of 2.570 percent. See Attachment C. This is based on the Consumer Price Index – All Urban Consumers, U.S. All Items (the "CUUR0000SA0" series), and conforms with the calculated percentage currently provided on the Commission's website.

B. Unused Price Adjustment Authority

The existing unused rate authority, by class, is provided below.[2]

Table 1
Available Unused Price Adjustment Authority,
By Mail Class

Class	Unused Authority (%)
First-Class Mail	-0.530
Standard Mail	-0.380
Periodicals	-0.562
Package Services	-0.533
Special Services	2.394

C. Overall Price Adjustment Authority

In this filing, the Postal Service will use some of the unused price adjustment authority for the Special Services class. Thus, the Postal Service is authorized to raise the prices for each class by the following percentages:

[2] Order No. 978 (November 22, 2011) at 2.

Table 2
Price Adjustment Authority By Mail Class

Class	Price Adjustment Authority (%)
First-Class Mail	2.570
Standard Mail	2.570
Periodicals	2.570
Package Services	2.570
Special Services	4.964

D. The New Prices

The cap compliance calculation, as defined by the Commission, uses a set of fixed weights applied to the current and new prices to construct a weighted average price change for each market-dominant class. These fixed weights are the most recent twelve months of Postal Service billing determinants, with adjustments that are supported and reasonable. For example, these adjustments include elimination of rate cells active in the previous year, if redefined in this price adjustment, and the consequent assignment of billing determinants to more applicable rate cells. For each of the five classes (First-Class Mail, Standard Mail, Periodicals, Package Services, and Special Services), the resulting average price change must be less than or equal to the Postal Service's available price adjustment authority in Table 2.

The new prices are in Attachment A. For each class, the Postal Service has prepared workpapers demonstrating how these prices comply with the price cap. These workpapers are designated as follows:

USPS-LR-R2013-1/1	First-Class Mail Cap Compliance
USPS-LR-R2013-1/NP1	First-Class Mail International Cap Compliance

USPS-LR-R2013-1/2	Standard Mail Cap Compliance
USPS-LR-R2013-1/3	Periodicals Cap Compliance
USPS-LR-R2013-1/4	Package Services Cap Compliance
USPS-LR-R2013-1/5	Special Services Cap Compliance

In addition, the Postal Service is filing three additional workpapers.

USPS-LR-R2013-1/6	Derivation of Volumes for Earned Value Reply Mail Promotion
USPS-LR-R2013-1/7	Standard Mail Contribution Model
USPS-LR-R2013-1/8	FY 2011 Delivery Costs By Shape

Each set of workpapers has a Preface that explains the contents in detail. The Preface for the first five workpapers provides an overview of the workpapers, a discussion of any necessary adjustments to the billing determinants for the four quarters ending Q3 FY 2012, and an explanation of the revenue calculations. Workpapers for First-Class Mail and Standard Mail also incorporate data on promotion volumes, based on the volumes from the 2011 Mobile Barcode Promotion and USPS-LR-R2013-1/6. A description of each promotion (including projected participation volumes) are included in Attachment D

E. Percentage Change by Mail Class

As demonstrated in USPS-LR-R2013-1/1 through 5, the prices for each class comply with the annual limitation of price adjustment authority available to the Postal Service. The percentage change by class is as follows:

Table 3
2013 Price Change Percentage by Mail Class

Class	Percent Change
First-Class Mail	2.570
Standard Mail	2.570
Periodicals	2.560
Package Services	2.569
Special Services	2.850

F. Unused Pricing Authority Resulting From this Change

For Periodicals and Package Services, this change adds to the unused pricing authority resulting from prior market-dominant price changes under the price cap. The Postal Service calculates the unused price adjustment authority that it will have following this price change as follows:[3]

Table 4
Unused Pricing Authority Available Following this Price Change

Class	Percentage Points
First-Class Mail	
R2012-3[1]	-0.530
R2013-1[2]	0.000
Total	-0.530
Standard Mail	
R2012-3 [1]	-0.380
R2013-1[2]	0.000
Total	-0.380
Periodicals	
R2012-3 [1]	-0.562
R2013-1 [2]	0.010
Total	-0.552
Package Services	
R2012-3 [1]	-0.533
R2013-1 [2]	0.001

[3] To the extent that the calculated percentage change for any class is revised during the course of this proceeding from what has been calculated by the Postal Service in this Notice, the Postal Service notes that the unused price adjustment authority should be adjusted, regardless of the figures set forth in this Table.

Total	-0.532
Special Services	
R2012-3 [1]	2.394
R2013-1 [2]	-0.280
Total	2.114

[1] Docket No. R2012-3, Order No. 987, at 2.
[2] Cap Calculation worksheets (USPS-LR-R2013-1/1 through 5).

II. Promotions

In previous years, the Postal Service has offered seasonal and other temporary price reductions designed to increase the value of mail to both senders and recipients, and to grow volume. In the past, these promotions have been submitted separately from the annual Market-Dominant price change filing.[4] In this filing, however, the Postal Service seeks approval for a total of six promotions to be held during Calendar Year 2013. Each promotion is outlined below and described in more detail in Attachment D.[5] By seeking approval for these promotions in this price adjustment, the Postal Service is addressing a primary concern raised by customers: that they did not have sufficient time to fully participate in the promotions.[6]

March-April 2013:

- *Mobile Coupon/Click-to-Call*: This promotion seeks to increase the value of direct mail by further highlighting the integration of mail with mobile technology in two specific ways. First, the promotion would encourage mailers to integrate hard-copy coupons in the mail with mobile-optimized platforms for redemption. Second, the

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[4] *See, e.g.* Docket No. R2011-5; Docket No. R2012-6; Docket No. R2012-9.
[5] The Postal Service has also provided cost estimates for each promotion in the file titled, AttachmentD.xls.
[6] *See, e.g.* Docket No. R2011-5, Comments of the American Catalogue Mailers Association, at 1 (April 29, 2011); Docket No. R2011-5, Comments of Quad/Graphics Inc., at 3 (May 3, 2011).

promotion will drive consumer awareness, and increased usage, of mail containing mobile barcodes with “click-to-call” functionality.

April-June 2013:

- *Earned Value Reply Mail Promotion*: This promotion is designed to encourage mailers to continue using First-Class Mail® as a primary reply mechanism for their customers. Business Reply Mail (BRM) and Courtesy Reply Mail (CRM) pieces continue to decline along with other Single-Piece First-Class Mail. This promotion encourages mailers to keep the CRM/BRM envelopes in their outgoing mail pieces by providing them with a financial benefit when their customers use the CRM/BRM envelopes.[7]

August-September 2013:

- *Emerging Technology*: This promotion is designed to build on the successes of past mobile barcode promotions by promoting awareness of how innovative technology, such as Near-Field Communication, Augmented Reality, and Authentication, can be integrated with a direct mail strategy to enhance the value of direct mail.

- *Picture Permit*: The Picture Permit promotion is designed to promote the use of picture permit imprint indicia, so as to improve the mailpiece’s visibility and impact as a marketing tool.

- *Product Samples*: This promotion will re-invigorate product sampling via the mail by providing mailers with an upfront postage discount on qualifying mail that contains

[7] This promotion is called “BRM/CRM Promotion” in the MCS (Attachment A).

product samples. The promotion will raise awareness of the new “Simple Samples” pricing structure in Standard Mail.

November-December 2013:

- *Mobile Buy-it-Now*: This promotion will encourage mailers to adopt and invest in technologies that enhance how consumers interact and engage with mail, and demonstrate how direct mail can be a convenient method for consumers to do their holiday shopping.

Additionally, the Postal Service will seek to recover some of the revenue forgone from these promotions by factoring the lost revenue into the price cap calculation. A conservative estimate of the value of four of these promotions (Mobile Coupon/Click-to-Call, Emerging Technologies, Mobile Buy-it-Now, and Earned Value Reply Mail), based on historical data on qualifying volume, is approximately $33.4 million. The basis of this calculation is shown in the First-Class Mail and Standard Mail workpapers (USPS-LR-R2013-1/1 and 2).

III. Description of the Prices

In compliance with Rules 3010.14(b)(7) through (8), the Postal Service in this section discusses 1) how its planned prices “help achieve” the objectives of section 3622(b) and “properly take into account” the factors of section 3622(c); and 2) how its planned prices are consistent with sections 3626, 3627, and 3629. In addition, the Postal Service discusses the workshare discounts included within the planned prices, as required by Rules 3010.14(b)(5) and (6).

A. Objectives and Factors—Rule 3010.14(b)(7)

The objectives of section 3622(b) are as follows:

"(b) Objectives—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:

(1) To maximize incentives to reduce costs and increase efficiency.

(2) To create predictability and stability in rates.

(3) To maintain high quality service standards established under section 3691.

(4) To allow the Postal Service pricing flexibility.

(5) To assure adequate revenues, including retained earnings, to maintain financial stability.

(6) To reduce the administrative burden and increase the transparency of the ratemaking process.

(7) To enhance mail security and deter terrorism.

(8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

(9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products."[8]

These objectives underlie Congress' mandate that there be a new, "modern system for regulating rates and classes for market-dominant products," to replace the prior ratemaking system of the Postal Reorganization Act (PRA). 39 U.S.C. 3622(a).

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[8] For ease of reference, each objective is referred to according to its placement in section 3622(b). For example, section 3622(b)(1) is referred to as Objective 1. A similar convention is used with respect to the "factors" of section 3622(c) below.

These principles are largely achieved through the design of the new regulatory system itself, rather than through the particulars of any one pricing change made pursuant to that system.

In this Notice, the Postal Service indicates its intention to increase its prices by the percentages specified in Table 3. With the exception of Special Services, these increases are approximately equal to the calculated CPI-U cap of 2.570 percent. Any price change made pursuant to the price cap structure set forth by section 3622(d) “helps achieve” many of these objectives (e.g., Objective 1, Objective 2, Objective 8).

The objective that the pricing process be transparent (Objective 6) is fundamental to the new regulatory environment, and is achieved through the entirety of the regulatory filings made by the Postal Service throughout a year. In this Notice, the Postal Service demonstrates how its planned price adjustments comply with the price cap limitation, the workshare standards of section 3622(e), and the requirements of section 3626. This clearly meets the objective that the pricing process be transparent. Furthermore, the FY 2011 Annual Compliance Report (ACR), filed December 29, 2011, furnishes to the public considerable data concerning market dominant products’ costs, revenues, and service quality.

Objective 1 states that the new regulatory system should “maximize incentives to reduce costs and increase efficiency.” Objective 2 requires that the regulatory system create “predictability and stability” in prices. These objectives are fulfilled by the Postal Service’s provision of advance notice of increases to prices on a predictable basis and consistent with inflation.

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account:

"(c) Factors—In establishing or revising such system, the Postal Regulatory Commission shall take into account—

(1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;

(2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;

(3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;

(4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;

(5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;

(6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;

(7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;

(8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;

(9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;

(10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—

(A) either—

(i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or

(ii) enhance the performance of mail preparation, processing, transportation, or other functions; and

(B) do not cause unreasonable harm to the marketplace.

(11) the educational, cultural, scientific, and informational value to the recipient of mail matter;

(12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;

(13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and

(14) the policies of this title as well as such other factors as the Commission determines appropriate."

Below, the Postal Service discusses its specific price adjustments by class, including how they comply with the policy considerations set forth in section 3622.[9] When considering these price changes, it is important to consider the long-term, rather than simply focusing on this year's prices in isolation.

1) First-Class Mail

First-Class Mail has six products: Single-Piece Letters/Postcards, Presorted Letters/Postcards, Flats, Parcels, Outbound Single-piece First-Class Mail International, and Inbound Single-Piece First-Class Mail International. The prices for these products change as follows:

Table 5
First-Class Mail Product Price Changes

Product	**Percent Change**
Single-Piece Letters/Postcards	2.283
Presort Letters/Postcards	2.555
Flats	2.675
Parcels	4.971
International	7.923
Overall	2.570

The Postal Service is increasing the price of a stamp for a one-ounce single-piece letter by one cent to 46 cents. The overall increase for Single-Piece

[9] Workshare discounts, which implicate Factor 5 and Factor 12, are discussed extensively in Part II.C of this Notice.

Letters/Postcards is 2.283 percent, which includes a 1 cent increase, from 32 cents to 33 cents, in the price for Single-Piece Cards. The average increase for single-piece mail is slightly lower than presorted mail. In the last CPI change (Docket No. R2012-3), the overall increase for Presort Letters/Postcards was 1.580 percent, while Single-Piece Letters/Postcards increased by 2.468 percent.

The MCS establishes each shape within First-Class Mail as a distinct product. This price change increases the per-piece price differentials between letters and flats, and between letters and parcels (Factor 1, Factor 2).[10] Currently the price of a one-ounce single-piece letter is 45 cents and that of a single-piece flat is 90 cents. The difference is 45 cents. The proposed prices include 46 cents for single-piece letters and 92 cents for single-piece flats, resulting in a difference of 46 cents. Also, the only First-Class Mail parcels remaining on the market-dominant side for this docket are retail First-Class Mail parcels. Presort, Commercial Base, and Commercial Plus parcels are now being priced with competitive products.

In this docket, the Postal Service is introducing a new single-piece price for single-piece residual letters. These letters are mainly permit imprint letters which for one reason or another do not meet the presort requirements and end up paying the single-piece price, including charges for additional ounces for heavier pieces. The new price will be 48 cents for up to 2 ounces. This proposal solves a logistical problem for bulk mailers and mail service providers. In the last docket the Postal Service proposed a free second ounce for all presort letters (nonautomation and automation) as a retention strategy to make the mail piece more valuable. As a result of this change, mailers were

[10] The gap between single-piece letters and flats increases to 46 cents, thereby maintaining the simplicity of the price structure, since the gap is equivalent to the price of a single-piece first ounce stamp (Factor 6). The letter-parcel differential increases from $1.50 to $1.61.

preparing mailings with the 1 ounce and 2 ounce pieces combined. As long as these pieces ended up in the presort mail stream, there was no postage impact. However, for the residual pieces that did not end up in the presort stream, additional work was required to separate out the 1 and 2 ounce pieces to accurately calculate the postage. The proposed uniform price will allow the mailers to pay postage for these pieces without having to go through the trouble of separating the 1 and 2 ounce pieces. A higher price of 48 cents allows the Postal Service to recover the lost additional ounce revenue while making it easy for the mailers to pay accurate postage (Factor 6). This 48-cent price is applicable to all the residual pieces weighing up to 2 ounces. A residual letter-shaped piece that weighs more than 2 ounces will pay the first ounce price of 46 cents and 20 cents for each additional ounce. Therefore, a 3-ounce residual piece will pay 86 cents, 46 cents for the first ounce and 20 cents each for each additional ounce.

The prices in Presort Letters/Postcards reflect the costs that the Postal Service avoids when customers presort and otherwise prepare their mail for automation processing (Factor 5). The overall increase for Presort Letters/Postcards is slightly below the overall average increase for First-Class Mail. Each of the Automation Presort Letter price cells increases by 1 cent except for Mixed AADC, which increases by only $1/10^{th}$ of a cent. The price increases for AADC, 3-Digit, and 5-Digit Automation Presort Letters are 2.7 percent, 2.7 percent, and 2.9 percent, respectively. The percent increases differ because the base price is lower for finer presort mail. The Postal Service continues to price AADC and 3-Digit Letters at the same level and extends this structure to Presort Automation Postcards. Also, the free second ounce continues for all Presort First-Class Mail letters (nonautomation and Automation).

Table 6
First-Class Mail First-Ounce Prices

1-ounce letter	Price per Piece		Change	
	Current	New	Cents per piece	Percent Change
Single-Piece	$0.45	$0.46	$0.010	2.2%
Mixed AADC	$0.404	$0.405	$0.001	0.2%
AADC	$0.374	$0.384	$0.010	2.7%
3-Digit	$0.374	$0.384	$0.010	2.7%
5-Digit	$0.350	$0.360	$0.010	2.9%

The overall increase for Flats is 2.675 percent, slightly above the CPI cap of 2.57 percent. The first-ounce price for single-piece flats changes from 90 cents to 92 cents (or the value of two First-Class Mail single-piece stamps), a 2.2 percent increase. Prices for Nonautomation Presort and Mixed ADC Automation flats increase by 7.5 percent. mainly because of the increase in the price of additional ounces from 17 cents to 20 cents (which matches the additional-ounce price for Single-Piece). The percent increases for Mixed ADC, ADC, 3-Digit, and 5-Digit automation flats are 1.4 percent, 1.6 percent, 3.5 percent and 1.5 percent, respectively.

Single-Piece (Retail) Parcels are the only parcel-shaped First-Class Mail pieces that remain on the market-dominant side. All other First-Class Mail parcels have been moved to competitive products. These remaining First-Class Mail parcels receive a 4.971 percent increase, which is higher than the overall increase for First-Class Mail. As reported in the FY 2011 Annual Compliance Determination issued on March 28, 2012 (page 96), the First-Class Mail Retail parcels cost coverage is 110.2 percent. The higher-than-average increase for First-Class Mail parcels is expected to improve this cost coverage, which is fairly low by First-Class Mail standards..

As discussed above in Part II, the Postal Service is not proposing to recover all of the forgone revenue resulting from the promotions being offered in Calendar Year 2013. Three promotions (Mobile Coupon/Click to Call, Emerging Technologies, and Mobile Buy-it Now) are included in USPS-LR-R2013-1/6 in the umbrella category of “mail to mobile.” The volume data for this category are based on actual historical volumes from the 2011 Mobile Barcode Promotion (July and August, 2011), which took place during the hybrid year period used in this filing. These historical data are segregated by shape and price categories but not price cells. The Hybrid year distribution was used to allocate these data to all the price cells in appropriate price categories. The forgone revenue was estimated by applying the difference in estimated revenues based on proposed nonpromotional prices and promotional prices. The promotional prices are 2 percent less than the nonpromotional prices. This revenue loss was included in the calculation of the change in revenue per piece for cap compliance, in USPS-LR-R2013-1/1. The promotional volume is 480 million (most of it in Presort Letters) and the First-Class Mail revenue forgone for these three promotions is $3.6 million.

The other promotion that is included in recovery of forgone revenue is the “Earned Value Reply Mail Promotion”. The estimates of BRM and CRM volumes that qualify for this promotion is presented in USPS-LR-R2013-6. The proposed $0.02 per piece credit is applied to the volume figures to quantify an expected revenue forgone to the Postal Service for giving these earned value credits to qualified mailers. This revenue forgone is included in the First-Class Mail (and Standard Mail) price cap calculations. USPS-LR-R2013-1/1 and 2. The dollar value of this postage credit for First-Class Mail is $10.2 million.

For Outbound Single-piece First-Class Mail International (FCMI), the Postal Service is increasing prices by 14.3 percent overall, which is significantly above the First-Class Mail average of 2.570 percent. The FCMI adjustment is necessary to increase contribution and improve cost coverage for FCMI Letters at the one-ounce weight step (Factor 2, Factor 12), and to accommodate the introduction of the International Forever™ stamp. The International Forever stamp will be sold at the price of a single-piece First-Class Mail International first ounce machinable letter, and have a postage value equivalent to the price of a single-piece First-Class Mail International first ounce machinable letter in effect at the time of use.

2) Standard Mail

Standard Mail consists of six products: Letters; Flats; Parcels; High Density and Saturation Letters; High Density and Saturation Flats and Parcels; and Carrier Route. Within this class, the prices of Standard Mail products increase as follows:

Table 8
Standard Mail Product Price Changes

Product	**Percent Change**
Letters	2.722
Flats	2.570
Parcels	3.081
High Density / Saturation Letters	2.207
High Density / Saturation Flats and Parcels	2.275
Carrier Route	3.133
Overall	2.570

In this price adjustment, Letters receive an above average price increase, while Flats receive an average (at cap) increase. These pricing decisions reflect a balance between: 1) the Commission's finding of noncompliance for Standard Mail Flats in the FY 2010 Annual Compliance Determination (ACD); 2) the Postal Service's ongoing concern about the long-term health of the catalogue industry, and; 3) the Postal Service's belief that above-average price increases for Flats (at the expense of letters) will impair its ability to enhance revenue and contribution under the statutory price cap (Objective 5). These factors are discussed in more detail below.

In the FY 2010 ACD, the Commission directed the Postal Service "to increase the cost coverage of the Standard Mail Flats product through a combination of above-average price adjustments, consistent with the price cap requirements, and cost reductions until such time that the revenues for this product exceed attributable costs" (ACD Order).[11] In response, the Postal Service filed an appeal with the U.S. Court of Appeals for the D.C. Circuit, challenging, among other things, the Commission's authority to issue the ACD Order pursuant to its powers under 39 U.S.C. § 101(d). Though the Court found that the Commission is permitted to rely on section 101(d) in "extreme circumstances,"[12] it remanded the case to the Commission for a "definition of the circumstances that trigger § 101(d)'s failsafe protection, and for an explanation of why the particular remedy imposed here is appropriate to ameliorate that extremity."[13]

In Order No.1427, the Commission set forth its interpretation of section 101(d) and the circumstances that may cause an "extreme case" violation. In brief, the Commission explained that a violation of section 101(d) may arise based on the "totality

[11] Docket No. ACR 2010, Annual Compliance Determination, at 106 (March 29. 2011).
[12] *United States Postal Service v. Postal Regulatory Commission*, 676 F.3d 1108 (D.C. Cir. 2012)
[13] *Id*. at 1105.

of the circumstances."[14] The Commission went on to cite a series of factors that it may consider before making such a finding.[15] During this discussion the Commission further noted that "the finding of an 'extreme case' would not be justified, if, for example…the Postal Service were to demonstrate that price increases would be counterproductive under the statutory price cap…".[16] As the Postal Service will explain in more detail below, it believes that above average price increases for the Flats product would impair its ability to enhance its revenue/contribution under the price cap.

The Postal Service maintains that the proposed prices for Flats and Letters represent a measured approach that will not only help capture additional revenue and contribution, but will also, over time, move Flats toward 100 percent cost coverage. First, the Postal Service remains concerned about the financial health and long-term viability of the catalogue industry, a major user of the Flats product. Accordingly, the Postal Service has used its pricing flexibility to keep the Flats price increases moderate (objectives 2, 4, factors 3, 7). Indeed, between FY 2009 and FY 2011, Flats volume declined by an annual average of 7 percent a year. Alarmingly, this trend appears to be accelerating, with flats volume declining by 8 percent year-to-date in 2012.[17] While recessionary reductions in consumer spending have undoubtedly placed some downward pressure on Flats volumes, these significant declines reflect, among other things, the systematic migration of catalogues to electronic media.

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[14] Docket No. ACR 2010-R, Order No. 1427: Order on Remand, at 10 (August 9, 2012).
[15] *Id*. at 3-10. Such factors include: 1) large, repeated below-100% cost coverages; 2) whether the Postal Service has made a meaningful attempt to correct the problem, and; 3) whether attempts to correct the cost coverage would be counterproductive under the price cap.
[16] *Id*. at 10.
[17] The 2012 Year-to-date volume percentage is calculated by comparing the first three quarters of 2012 with the first three quarters of 2011.

Given this largely systemic decline, the Postal Service believes that above-average price increases (though aimed at eliminating the cost coverage gap) could have the inadvertent effect of sending the Flats product into a tailspin. With each price increase, additional customers would be driven away, which would necessitate additional price increases as volume declines accelerated. Though this would not pose a significant problem if processing costs were perfectly correlated to volume, this is simply not the case. Given the fixed nature of processing equipment and the inflexibility of union contracts, processing costs would fall less quickly than volumes. Though the Postal Service continues to pursue operational efficiencies, such as Network Rationalization, it must be careful not to make pricing decisions that will artificially depress Flats volume.

In contrast to the systemic decline of Flats, Standard Mail Letters grew by an annual average of 4 percent between FY 2009 and FY 2011. These divergent volume trends not only complicate the Postal Service's pricing decision, but also highlight a natural tension that exists within the Postal Accountability and Enhancement Act: the need to achieve 100 percent cost coverage (Factor 2) while maximizing revenue and contribution to achieve financial stability (Objective 5). Though these two aims are not always in conflict, the Commission's ACD Order forces the Postal Service into a Hobson's choice between compliance and generating additional revenue/contribution. As the model filed as USPS-LR-R2013-1/7 (Contribution Model) demonstrates, by applying a greater amount of price cap authority to Standard Mail Letters, the Postal Service could generate a greater amount of contribution.

The Contribution Model presents six scenarios. In the first scenario (1a), the Postal Service's proposed price increases for Letters and Flats are applied. The divergent volume trends are accounted for by applying a 7.0 percent reduction for Flats and a 4.0 percent increase for Letters.[18] The result is a $518.7 million improvement in contribution. In the second scenario (1b), the divergent volume trends are maintained, but more of the Postal Service's pricing authority is applied to Flats (4.57 percent price increase), while less is applied to Letters (2.229 percent price increase). In this case, contribution only increases by $513.8 million. Finally, scenario 1c shows that, by applying additional pricing authority to Letters (2.863 percent) and less to Flats (2.00 percent), the Postal Service could generate even more contribution (+$520.1).[19]

Nevertheless, in acknowledgment of the Commission's ACD Order and the need to steadily move Standard Mail Flats toward 100 percent cost coverage, the Postal Service proposes a balanced pricing approach for these two products. Unsurprisingly, this approach most closely mirrors the middle-ground represented by scenario 1a above. The Postal Service believes that this pricing proposal accomplishes two goals: moving Flats toward 100 percent cost coverage and capturing the revenue available under the price cap.

Alternatively, by following the Commission's approach, the Postal Service would be forced to use precious cap space in an attempt to boost Flats' cost coverage. Such efforts may not only have unintended consequences for the catalogue industry, but

[18] These volume trends represent the average annual volume change for each product (Standard Mail Letters and Flats) between FY 2009 and FY 2011.

[19] Additionally, scenarios 2a – 2c make clear that the reason for the differential contribution impacts in Scenarios 1a – 1c is the divergent volume trends. When Flats and Letters volumes are specified to be trending together, as in Scenarios 2a – 2c, the contribution impact is identical in each case (+$412.2 million).

could also have negative long-term effects on the ability of Standard Mail to contribute to covering network costs. Assuming that the systemic decline in Standard Mail Flats volume continues, Letters will be increasingly burdened with having to pay for network costs. However, keeping the Letters price in check (through repeated attempts to boost Flats' cost coverage) will impair Letters' ability to bear this burden. Moreover, the constraining nature of the price cap will forever prevent Standard Mail from making up the lost ground. Ultimately, this is a self-destructive cycle.

In addition to the concerns mentioned above, the Postal Service's pricing decision for Flats was also influenced by the need to manage the price gap between Standard 5-Digit automation flats and Carrier Route flats. Had the Postal Service given a larger price increase to Standard Mail Flats, it would have been forced to increase Carrier Route prices (which are already increasing by 3.133%) even further. To avoid such an increase, which would have negatively impacted Carrier Route volumes, the Postal Service allowed the gap between these two products to grow from 8.2 cents to 8.3 cents. However, it is not the Postal Service's intention to signal a widening gap in this area.

Based on the above, and the fact that Letters received a below average price increase in last year's price adjustment, the Postal Service believes that the proposed prices for Letters and Flats represent the best approach for all parties. Additionally, when taking into account additional cost savings that will be realized from Network Rationalization, the Postal Service believes that the proposed price change sets Standard Mail Flats on a sustainable path toward 100 percent cost coverage. Indeed, the Postal Service estimates that Standard Mail Flats' cost coverage will modestly increase in FY 2012, and continue increasing in FY 2013.

In addition to the rates discussed above, the new prices for AADC and 3-Digit Presorted letters are set equal. The Postal Service is not changing the presorting requirements for either rate cell, thus permitting customers pay the same price for either sortation level. Until the Postal Service is able to determine which preparation standard will be most consistent with the redesigned processing network, the Postal Service determined that the best course of action was to preserve existing sortation options in 2013. This approach (as compared to, for example, eliminating one of the current sortation options) will not require customers to prematurely change sortation processes and software. The Postal Service will continue to evaluate the current sortation levels

This price adjustment also includes a proposal to adopt new pricing and preparation standards for parcels in Standard Mail High Density and Saturation Flats/Parcels, and Standard Mail Carrier Route. These changes are referred to as "Simple Samples." Together, the Postal Service believes that these streamlined preparation standards and lower prices (factor 6, objective 4) will help develop and grow a profitable product samples business (factor 8).

The production and distribution of product samples is a large and growing market estimated to reach approximately $5 billion per year by 2015.[20] Despite these trends, annual mail volumes for product samples have repeatedly declined since 2005. The Postal Service believes that complex pricing and preparation requirements for parcel-shaped items made direct mail a less competitive channel for the distribution of these goods.

[20] The estimated value of the product samples market includes all methods of dissemination.

Consequently, under the new Simple Samples initiative, customers will be able to induct samples into the mail in cartons without the need to use unnecessary outer packaging. Additionally, under the simplified pricing structure, customers will pay between $0.260 and $0.400 per unit up to 200,000 units. Lower prices will be given for higher-volume tiers in order to encourage growth.

The Postal Service is also proposing the introduction of a new High Density Plus price tier. This creates a new option between High Density and Saturation. Current requirements, such as the 125 piece minimum for High Density prices, have been in place for decades. The introduction of a new High Density Plus price tier, requiring at least 300 pieces per carrier route, would simply encourage High Density customers to grow volumes in order to qualify for better pricing (factor 7, objective 1). Depending on the entry point, the proposed price range for High Density Plus letters is from $0.156 to $0.199, and for flats from $0.172 to $0.224.

Additionally, in this pricing adjustment, the Postal Service gives Detached Address Labels (DALs) a price increase that is consistent with the price cap. Having made a significant step in the last price adjustment toward improving cost coverage, and recognizing the price sensitivity of DAL customers, the Postal Service proposes a moderate increase from 3.0 cents to 3.1 cents (factors 7, 2, objective 4).

As discussed in Part II, the Postal Service is proposing to implement a series of targeted and short-term promotions to increase the value of the mail (factor 7, objective 4). The Postal Service is also attempting to recover some of the foregone revenue from these promotions by factoring the discounted prices into the price cap calculation.   The methodology for recovering this forgone revenue in Standard Mail follows the same approach described in Part III(a)(1). The dollar value of the promotions, for purposes of the Standard Mai price cap compliance calculation, is estimated to be $19.5 million. This calculation is explained in more detail in the worksheets titled USPS-LR-R2013-1/2 and 6.

Finally, in Docket No. MC2012-31 (Order No. 1460), the Commission approved the addition of Every Door Direct Mail Retail to the Product List. The approved price is 16 cents. This price adjustment does not propose any changes to the approved price of 16 cents. Similarly, an optional picture permit indicia was approved for letters in Docket No. R2012-7. The approved price of a picture permit for Standard Mail is 2 cents. The Postal Service is not proposing any change to this price in this docket, but is extending the availability of picture permits to flats.

3) Periodicals

The Periodicals class includes magazines and newspapers, and consists of two products: Within County Periodicals, and Outside County Periodicals. The prices for these products change as follows:

Table 9
Periodicals Price Changes

Product	**Percent Change**
Outside County	2.546
Within County	2.911
Overall	2.560

The Periodicals class has been challenged in terms of cost coverage. It did not cover its attributable costs in FY 2011 (Factor 2, Objective 8). Despite its continued failure to cover its costs, the Postal Service was cognizant of Periodicals’ value to the public when making its pricing decisions (Factor 8, Factor 11). However, since both Periodicals products are failing to cover costs by substantially more than the price cap, the Postal Service cannot use its pricing authority to fully cover costs.

Accordingly, this price change simply refines price relationships to encourage efficiency and containerization, while limiting the price increases for individual publications. The actual price paid by a given publication is the combination of many price elements, so care has been taken to adjust the individual price elements in a manner that limits the resulting postage increases.

4) Package Services

The Package Services class consists of five products: Alaska Bypass Service, Bound Printed Matter Flats, Bound Printed Matter Parcels, Media Mail/Library Mail, and Inbound Surface Parcel Post (at UPU rates). The prices for these products increase as follows:

Table 10
Package Services Price Changes

Product	Percent Change
Alaska Bypass Service	1.890
BPM Flats	0.002
BPM Parcels	3.424
Media Mail and Library Mail	3.472
Inbound Surface Parcel Post	1.552[21]
Overall	2.569

Bound Printed Matter (BPM) includes two products: Flats (primarily heavy catalogues), and Parcels (primarily product order fulfillment). The Bound Printed Matter Flats product already covers its costs, and is used by cataloguers, which face

[21] Prices for Inbound Surface Parcel Post (at UPU rates) are determined by the Universal Postal Union and are not under the control of the Postal Service. These prices are adjusted by the Postal Operations Council.

economic pressures, Therefore, to offset the larger price increases for Media/Library Mail and BPM Parcels, the price increase for BPM Flats is almost zero.

In Docket No. MC2012-13, the Commission approved the transfer of Parcel Post to the Competitive product list; however, Alaska Bypass Service will remain on the Market Dominant product list. In this price adjustment, Alaska Bypass prices will be based on the previous 70-pound Parcel Post prices for Zones 1, 2, and 3. In the future, Alaska Bypass prices will be delinked from Parcel Post.

Finally, BPM Parcels and Media/Library Mail will have the largest price increases in Package Services. However, even after these increases, Media Mail and Library Mail will still priced below other ground parcels, largely to recognize their “educational, cultural, scientific, and informational value” (Factor 11). Regardless, the increases for these two products are still below 3.5 percent.

5) Special Services

The Special Services class currently contains the following products: Ancillary Services, International Ancillary Services, Address Management Services, Caller Service, Change-of-Address Credit Card Authentication, Confirm, International Reply Coupon Service, International Business Reply Mail Service, Money Orders, Post Office Box Service, Stamp Fulfillment Services, and Customized Postage. The overall increase for the Special Services is 2.850 percent.

For most of the special services, fee increases were designed to be close to 4.5 percent, while maintaining consistency with historical rounding constraints, which simplify transactions for customers (Factor 3, Factor 6).[22]

The prices for Collect on Delivery are being raised by 9.2 percent overall, reflecting both the value of the service provided and the lack of historical stability in the cost data. Given that Fiscal Year 2011 costs were substantially lower than in Fiscal Year 2010, the Postal Service is proactively raising the prices more than the average, because it is possible that the costs will be higher this year than last year.

Express Mail insurance prices are increasing by 7.9 percent as the Postal Service increases the prices for the first time since 2011. This price increase reflects the value of service provided (Factor 1).

The prices for Return Receipt are being raised by 7.5 percent, reflecting the value the service provides (Factor 1).

Special Handling Prices are being increased by 16.8 percent to reflect the high value the service provides to mailers that use it (Factor 1).

Stamp Fulfillment Services are not receiving a price increase in recognition of the 25-75 percent price increase they received in last year's price adjustment. The Postal Service was concerned that an additional price increase in FY 2013, could provide a disincentive for customers to receive stamps by mail. This approach will allow the Postal Service to see what, if any, impact the previous price increase had on demand (Factor 3).

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[22] The intent was to adjust the prices in a manner that was equivalent to the price cap plus the regulatory limit of 2 percent of the bank. The overall increase was less than this because portions of Delivery Confirmation service had a price reduction to $0.00.

The prices for retail Delivery Confirmation service for Package Services and Priority Mail, and for electronic Delivery Confirmation service for Parcel Post are being set to zero, as the Postal Service continues its transition to an environment in which tracking becomes an integral feature of parcels. The result is an overall price decrease of 27.1 percent for Delivery Confirmation service (Factors 1, 6, and 13).

The prices for Confirm service are remaining zero in anticipation of a separate filing (later this year) requesting the elimination of Confirm service.(Factors 1 and 13).

The Periodicals Additional Entry application fee is being eliminated; the price for the Original Entry fee is being increased to simplify the pricing structure (Factor 6). Approved Periodicals publications which pay the Original Entry fee would be able to mail at any Post Office with *PostalOne!* access.

Caller Service prices are increased by an average of 5.9 percent. For Post Office Box service, prices will generally not be increased for Size 1 boxes, but will be increased for the larger box sizes. The previous two price adjustments did not increase the larger box sizes at all due to the relatively small size of the cap, and prices for larger size boxes have not changed since 2009. Fee Group 4 is an exception because its fees are anomalously lower than the next higher fee group. Prices are increased in all box sizes for Fee Group 4 to level the price relationships among fee groups. The overall price increase for Post Office Box service is 5.0 percent..

Approximately 5.8 million market dominant Post Office boxes at 6,800 locations moved to the competitive category, pursuant to Commission Order No. 780 (Docket No. MC2011-25) on January 27, 2012. Prices for these boxes are managed under the

Competitive price schedule. Therefore, the box counts within the market dominant P.O. Box product have been adjusted downward to reflect the transfer.

For Stamped Envelopes, the overall price increase is 6.2 percent. The increase is driven by raising the price of single sale envelopes by 1 cent and increasing the shipping fees. (Factors 1 and 6).

Stamped Cards is receiving a 33.3 percent increase as the price of the card increases from $0.03 to $0.04. (Factors 1, 2, and 6). This fee has not increased since 2008.

Finally, the special services fees for International Certificates of Mailing are set equal to the fees for the equivalent domestic service (Factor 6). More detail on Special Services price changes is included in USPS-LR-R2013-1/5.

B. Preferred Mail—Rule 3010.14(b)(8)

Section 3626 sets forth pricing requirements for certain preferred categories of mail. In this price change, the Postal Service implements these requirements in the same manner as it did in its Docket No. R2012-3 price change, which the Commission concluded was an appropriate interpretation of section 3626.[23]

First, section 3626(a)(3) requires that the prices for Within County Periodicals "reflect[ ] its preferred status," as compared to the prices for regular rate Periodicals.[24] This price adjustment continues to recognize the preferential status of Within County Periodicals by setting prices below those of regular Outside County Periodicals.

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[23] See Order No. 987 at 20, 35. Docket No. R2012-3

[24] This general standard replaces the "50-percent mark-up rule" that previously governed the setting of prices for Within County Periodicals. See H.R. REP. NO. 109-66, pt. 1, at 67-68.

Second, section 3626(a)(4)(A) requires that Nonprofit and Classroom Periodicals receive, as nearly as practicable, a 5 percent discount from regular rate postage, except for advertising pounds. Consistent with previous practice, the Postal Service maintains this rate preference by giving Nonprofit and Classroom pieces a 5 percent discount on all components of postage except for advertising pounds and ride-along postage.

Third, section 3626(a)(5) requires that Science of Agriculture Periodicals be given preferential treatment for its advertising pounds. Consistent with past practice, the Postal Service continues to provide these publications with advertising pound rates for DDU, DSCF, DADC, and Zones 1 & 2 that are 75 percent of the advertising pound rates applicable to regular Outside County Periodicals.

Fourth, section 3626(a)(6) requires that Nonprofit Standard Mail prices be set to achieve an average revenue per piece that is 60 percent of the commercial average revenue per piece. Consistent with past practice, the Postal Service has calculated this ratio at the class level. The prices set forth in this Notice achieve a revenue per piece ratio of 59.9 percent. Past practice by the Commission has indicated that it is acceptable to meet the 60 percent ratio within a few tenths of a percent.[25] Details of the nonprofit-commercial revenue per piece ratio are contained in USPS-LR-R2013-1/2, workbook CAPCALC-STD-R2013.xls, worksheet “Price Change Summary.”

Fifth, section 3626(a)(7) requires that the prices for Library Mail be equal, as nearly as practicable, to 95 percent of the prices for Media Mail. This is achieved by setting each Library Mail price element equal to 95 percent of the corresponding Media

[25] For example, the Commission recommended prices in Docket No. R2005-1 that produced nonprofit-to-commercial average price ratios of 59.7 percent for Standard Mail Regular and 59.8 percent for Standard Mail ECR. In Docket No. R2009-2, the Commission approved a nonprofit to commercial price ratio of 60.2 percent. Order No. 191 at 44; USPS-R09-2/2, tab “Price Change Summary”.

Mail price element. The Postal Service has followed this approach in setting its new prices.

Finally, section 3626(g)(4) requires that preferential treatment be accorded to the Outside County pieces of a Periodicals publication having fewer than 5,000 Outside County pieces, and at least one Within County piece. In conformance with this requirement, the Postal Service implemented a new “limited circulation” discount in 2008, which gives these mailers a discount equivalent to the Nonprofit and Classroom Periodicals discount.

In addition to a discussion of section 3626, Rule 3010.14(b)(8) also requires the Postal Service to discuss how its planned prices are consistent with sections 3627 and 3629. Neither section is implicated by this price change: for section 3627, the Postal Service does not seek to alter the free rates; for section 3629, the Postal Service does not change the eligibility requirements for nonprofit prices.

C. Workshare Discounts—Rules 3010.14(b)(5) and (6)

Section 3622(e) requires that the Postal Service justify any worksharing discount that exceeds 100 percent of the avoided costs, by reference to one or more of the exceptions specified in that provision. These exceptions are listed below.

> (2) Scope.— The Postal Regulatory Commission shall ensure that such discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity, unless—
>
> (A) the discount is—

(i) associated with a new postal service, a change to an existing postal service, or with a new work share initiative related to an existing postal service; and

(ii) necessary to induce mailer behavior that furthers the economically efficient operation of the Postal Service and the portion of the discount in excess of the cost that the Postal Service avoids as a result of the workshare activity will be phased out over a limited period of time;

(B) the amount of the discount above costs avoided—

(i) is necessary to mitigate rate shock; and

(ii) will be phased out over time;

(C) the discount is provided in connection with subclasses of mail consisting exclusively of mail matter of educational, cultural, scientific, or informational value; or

(D) reduction or elimination of the discount would impede the efficient operation of the Postal Service.

(3) Limitation.— Nothing in this subsection shall require that a work share discount be reduced or eliminated if the reduction or elimination of the discount would—

(A) lead to a loss of volume in the affected category or subclass of mail and reduce the aggregate contribution to the institutional costs of the Postal Service from the category or subclass subject to the discount below what it otherwise would have been if the discount had not been reduced or eliminated; or

(B) result in a further increase in the rates paid by mailers not able to take advantage of the discount.

In addition, Rule 3010.14(b)(6) requires the Postal Service to explain discounts that are set “substantially” below 100 percent of avoided costs. The workshare discounts, cost differentials, and passthroughs are shown in Attachment B. These tables have the avoided cost data from the FY 2011 ACD. The discounts in USPS-FY11-3 have been replaced by the discounts included in the new prices. The following sections describe the resulting passthroughs that exceed 100 percent, or that are significantly lower than 100 percent.

<u>First–Class Mail</u>

There are three workshare tables for First-Class Mail, and there are 14 passthroughs (discount divided by cost avoidance) in First-Class Mail to be evaluated for compliance. Five of these passthroughs are over 100 percent: that is, discounts exceed cost avoidances when comparing the previous fiscal year’s cost avoidances with the new prices. Three passthroughs are below 100 percent: that is, discounts are less than the most recent fiscal year’s cost avoidance. Four passthroughs are equal to 100 percent, and two are zero, because of a pricing structure change that was added by the Postal Service for automation letters in the last docket, and that is being extended to automation postcards in this docket.[26] Cost avoidances are rounded to the same level as the prices and resulting discounts to avoid calculations that result in passthroughs that are slightly under or over 100 percent simply due to rounding.

[26] These particular passthroughs are zero in the current docket, because the prices for AADC and 3-Digit Automation Letters and Cards are the same. In the future, the Postal Service expects to have one, yet to be determined, sortation level between Mixed AADC and 5-Digit

Consistent with Order No. 1320, the Postal Service is using metered mail as the benchmark for estimating the Mixed AADC price. Currently, the metered mail price is the same as the Single-Piece letter price. As envisioned by footnote 22 in Order No. 1320 (Docket No. RM2010-13), the Postal Service is considering the proposal of separate pricing for Single-Piece metered letters. Such pricing would improve the workshare ratios for Presorted Letters.[27]

Cost avoidances for Automation Letters are derived from the errata to Library Reference PRC-RM2010-13-LR1 (May 9, 2012). The only update to the table resulting from the May 9 Errata filing is the Commission-directed update that is filed in USPS-LR-R2013-1/8.

Single-Piece Letters and Postcards

The passthroughs of the cost avoidances underlying the discounts for both QBRM Letters and QBRM postcards are 212.5 percent. In Docket No. R2012-3, this passthrough was 157.1 percent as filed by the Postal Service (Notice of Price Adjustment, Attachment B), and 287.5 percent in the latest Annual Compliance Determination (2011 ACD), issued on March 28, 2012. Postal Service pricing in this docket has reduced the discount from 2.2 cents to 1.7 cents, moving the passthrough closer to 100 percent compared to the 2011 ACD. Even with the greater than 100 percent passthrough, the increase in the price of QBRM letters is 3.5 percent, and the price increase for QBRM cards is 5.0 percent. The problem in this particular instance is not the magnitude of the discount, but further reduction in the cost avoidance from 1.4

[27] Consistent with its D.C. Circuit Court of Appeals Brief filed September 14, 2012, in United States Postal Service v. Postal Regulatory Commission, the Postal Service does not believe that separate pricing of metered mail would provide the Postal Service the pricing flexibility for Presorted Letters intended under the PAEA.

cents to 0.8 cents. Raising QBRM prices to reduce this discount more was not a desirable option from a business perspective.

QBRM prices, although part of the single-piece product, are paid by bulk mailers to generate additional business. In order to encourage the inclusion of business reply envelopes, the Postal Service initially introduced Reply Rides Free, and then, in Docket No. R2012-3, reduced the price of second-ounce for Presort mail to zero. In this docket, the Postal Service is requesting the approval of the Earned Value Reply Mail promotion for returned BRM and CRM pieces. The goal is to provide an incentive for these pieces to remain in the mail. Raising the QBRM price still higher would undercut this objective. Therefore, in light of the need to mitigate the price increase, the passthrough exceeds 100 percent, pursuant to section 3622(e)(2)(A). The Postal Service will be mindful of this particular cost avoidance in determining the discounts in future price adjustments.

Automation Cards

There are two passthroughs that exceed 100 percent. The mixed AADC Automation Cards passthrough compared to the benchmark of Nonautomation Presort Cards is 121.1 percent, while the AADC Automation Cards passthrough compared to its benchmark of Mixed AADC Cards is 109.1 percent. In Docket No. R2012-3, the Mixed AADC passthrough was 92.6 percent, while the AADC passthrough was exactly 100 percent.

In the 2011 ACD, page 100, the Commission directed the Postal Service to align the discount between Nonautomation Presort Cards and Automation Mixed AADC Presort Cards with the estimated cost avoidance of 1.9 cents, unless it is subject to one of the exceptions in 3622(e). For Mixed AADC Automation Cards, the estimated cost avoidance had decreased from 2.7 cents to 1.9 cents, in the 2010 ACD. In the current changes, the Postal Service is reducing this discount from 2.5 cents to 2.3 cents to bring the passthrough closer to 100 percent. A further reduction in this passthrough will not only increase the price of Mixed AADC Automation Cards higher than what is proposed, but would lead to higher increases for all the other presort levels, i.e., AADC, 3-Digit and 5-Digit. In Docket No. R2012-3, the price increase for Automation Cards was significantly higher than the Cap (9.63 percent, compared to the Cap of 2.133 percent). The Presort Cards cost coverage of 271.2 percent in FY2011 is the second highest cost coverage of all market dominant products. second only to Presort Letters. Therefore, to mitigate the price increase (in light of the back to back above CPI increases), the passthrough exceeds 100 percent, pursuant to section 3622(e)(2)(B). The Postal Service will be mindful of this particular cost avoidance in determining the discounts in future price adjustments.

The AADC Automation Cards discount compared to its benchmark of Mixed AADC Cards exceeds the cost avoidance by 9.1 percent. Since the Postal Service is proposing the same price level for AADC and 3-Digit Automation Cards, the price for AADC Cards was lowered by 1/10th of a cent (by increasing the passthough slightly) because this price is now applicable to both AADC and 3-Digit sort levels. The passthrough between AADC and 3-Digit Automation Letters is zero. Besides the operational and network realignment issues that were presented in Docket No. 2012-3 for the structural change for Automation Letters, this same change is being made for Cards, because some mailers combine Cards and Letters in the same tray. If AADC and 3-Digit Letters pay the same price, but Cards have different price levels for these two presort levels, it becomes a logistical issue for the mailers to combine 3-Dgit and AADC Cards and Letters and calculate the postage accurately. In light of other operational and network issues discussed below for Standard Mail Letters, and to make it easy for the mailers to combine letters and cards, this change is being proposed, resulting in a passthrough that is slightly above 100 percent. Therefore, for AADC Cards, the passthrough exceeds 100 percent, pursuant to section 3622(e)(2)(D).

The passthrough for 5-Digit Automation Letters compared to its benchmark 3-Digit Automation Letters is less than 100 percent; that is, the discount is less than the cost avoidance between these two presort levels.

The discount for 5-Digit presorted mail compared to single-piece has remained at 10 cents; that is, 45 cents minus 35 cents based on current prices and 46 cents minus 36 cents for new prices.

Automation Flats

The passthrough of the avoided cost for the ADC presort level for flats is 178.6 percent, a reduction from the current 214.3 percent (2011 ACD, Table VII-2, Page 98). This improvement in the passthrough was a result of an increase in the estimated cost avoidance from 4.4 cents to 5.6 cents (FY2010 to FY2011). When compared to the 2011 ACD, the discount was also reduced from 12 cents to 10 cents, but that reduction took place as a result of prices proposed in Docket No. R2012-3. One of the major reasons for the greater than 100 percent passthrough for ADC Automation Flats is a change in costing methodology in FY2008. Proposal 8 filed in Docket No. RM2008-2 explains the methodology change and its impact on cost estimates. Use of a 100 percent passthrough would lead to significantly higher price increases for automation flats. The price increase for Presort Flats is 7.5 percent (significantly above the Cap of 2.57 percent) due to the increase in the price of additional ounces from 17 cents to 20 cents. In light of the need to mitigate this price increase, the passthroughs exceed 100 percent, pursuant to section 3622(e)(2)(B). The Postal Service will continue to evaluate this passthrough in light of new cost information in future price adjustments.

Standard Mail

Standard Mail Letters

Three workshare passthroughs for Standard Mail Letters exceed 100 percent. The presort discount for nonmachinable ADC letters compared to nonmachinable mixed ADC letters is 120.3 percent. The presort discount for nonmachinable 3-digit letters compared to nonmachinable ADC letters is 136 percent. The presort discount between nonmachinable 5-digit letters and nonmachinable 3-digit letters is 125 percent.

In Docket No. R2012-3, which used 2010 ACD avoided cost data, the Postal Service aligned the 9.7 cent presort discount with the avoided cost of nonmachinable ADC letters. While, the Postal Service has decreased this discount to 9.5 cents in the current price adjustment, the avoided cost has decreased to 7.9 cents from 11.1 cents. Decreasing the discount even further than to 9.5 cents at this time would cause a sharp increase in the price of presorted nonmachinable ADC letters. Therefore, the Postal Service justifies this passthrough under section 3622(e)(2)(B).

In the 2010 ACD, the avoided cost of nonautomation 5-digit nonmachinable letters was 10.5 cents. This decreased sharply in the 2011 ACD to 7.6 cents. The Postal Service has tried to align this discount to its avoided cost; however, decreasing it below the proposed 9.5 cents would increase the prices of 5-Digit nonmachinable letters beyond acceptable limits. Therefore, the Postal Service justifies this passthrough under section 3622(e)(2)(B).

In this price adjustment, the Postal Service has decreased the presort discount of nonmachinable 3-digit letters to 3.4 cents from 3.8 cents in Docket No. R2012-3. Decreasing it even further at this time would increase the nonautomation 3-digit nonmachinable letters prices beyond acceptable levels. Therefore, the Postal Service justifies this passthrough under section 3622(e)(2)(B).

There is one discount where the discount passes through relatively little of the available avoided costs: the prebarcoding discount for automation letters. There is also one discount for which no avoided cost is available: the presorting discount between AADC and Mixed AADC nonautomation machinable letters.

The FY 2011 ACR estimated the avoided cost for automation letters at 1.8 cents. This avoided cost estimate has been volatile in recent years, even becoming negative in 2008 and 2009. In the Docket No. R2012-3 price change, given the volatility, the Postal Service decided that stability of this incentive made the most sense. Rather than trying to trace the volatile movements of the cost estimates, the Postal Service maintained the discount at 0.3 cent in the Docket No. R2012-3 price adjustment, despite the fact that this passed through only 50 percent of the latest estimate of avoided costs. In this price change, the Postal Service increased this discount to 0.8 cent in an effort to align the discount with the avoided cost. The Postal Service will continue to monitor this discount in future price adjustments in an effort to align the discount with its avoided cost.

As in Docket No. R2012-3, the Postal Service has no avoided cost estimate for the nonautomation machinable AADC – Mixed AADC letters pair. Without any cost difference data for guidance, the Postal Service is holding the price differential between Mixed AADC and AADC machinable nonautomation letters at its current 1.6 cent value. If cost difference data become available, they can be used to price this difference.

Standard Mail Flats

The Flats product has two discounts that exceed 100 percent of avoided costs. The prebarcoding discount between automation and nonautomation flats, and the presort discount for automation 3-Digit flats.

In the Docket No. R2012-3 price adjustment, the Postal Service aligned the discount of 5.6 cents to the avoided cost. The current price adjustment uses the 2011 ACD avoided costs (as required by Commission rules). The avoided cost dropped to 4.6 cents between FY 2011 and FY 2012. While the Postal Service lowered the discount to 5.0 cents, it could not drop this discount fast enough, without being disruptive. As a result, the Postal Service justifies this discount using section 3622(e)(2)(B). The Postal Service will continue to work towards aligning this discount to the avoided cost and.

In the price adjustment implemented April 17, 2011 (Docket No. R2011-2), the Postal Service justified the prebarcoding discount of 5.7 cents by relying on section 3622(e)(2)(D), to encourage as many flats as possible to be prebarcoded and promote successful implementation of the Flats Sequencing System (FSS) program. The Commission accepted this justification in Docket No. R2011-2, and also in the 2010 ACD. The reduction to 5.7 cents in April, 2011, reflected the Postal Service's belief that an extra incentive for prebarcoding would not be required permanently to make the FSS program successful. The Postal Service still believes that, with deployment of FSS machines only just completed, there continues to be a need for an extra incentive for prebarcoding, but that it should be possible to gradually reduce the incentive. The Commission will notice that this prebarcoding incentive was increased to 7.5 cents. This is not a strategic move from the Postal Service, but instead an inadvertent increase. The Postal Service will gradually eliminate the excess incentive, but relies on section 3622(e)(2)(D) to justify the current passthrough.

Standard Mail Flats has two workshare discounts with passthroughs significantly below 100 percent. These are the 5-digit discount for automation flats and the ADC discount for nonautomation flats.

The passthrough for the discount between 3-digit and 5-digit automation flats remains low, albeit a bit better than what it was in the 2011 ACD. Given the difficulties of the catalogue industry, and the Postal Service's interest in not unduly burdening catalogue mailers, it was impossible to pass through a greater percentage of the avoided costs between 3-digit and 5-digit automation flats, without either pushing the 3-digit price increase to unacceptable levels or, alternatively, giving 5-digit flats a negligible, or even negative, price change. The Postal Service opted to keep the price increases for automation flats to a relatively narrow range and allow the passthrough between 3-digit and 5-digit flats to remain low for the time being.

The Postal Service has increased the discount between Mixed ADC and ADC nonautomation flats to 4.2 cents from the previous discount of 3.3 cents, in an effort to align the discount with the current avoided cost. While moving in the right direction, the passthrough for this discount remains low. Again, the Postal Service decided to keep the increases for this pricing category within a relatively narrow range in this price adjustment. Recognizing more of the Mixed ADC – ADC cost differential in pricing would have produced a substantial price increase for Mixed ADC flats, one that the Postal Service deemed to be unacceptably high under the circumstances. In the next general price adjustment, the Postal Service will revisit this price differential to see whether greater recognition for this cost differential can be managed without too large of an increase for Mixed ADC nonautomation flats.

Standard Mail Parcels

Four worksharing discounts for Standard Mail Parcels exceed a 100 percent passthrough. These are the presort discounts between (1) NDC irregular parcels and mixed NDC irregular parcels, (2) SCF irregular parcels and NDC irregular parcels, (3) NDC Marketing Parcels and mixed NDC Marketing Parcels, and (4) SCF Marketing Parcels and NDC Marketing Parcels. The nonbarcoded surcharge also exceeds the avoided costs of prebarcoding in the parcels cost model.

In Docket No. R2012-3, the Postal Service justified the discount between NDC irregular parcels (commercial and nonprofit) and Mixed NDC irregular parcels (commercial and nonprofit) under section 3622(e)(2)(D). The Commission reviewed and accepted this justification in Docket No. R2011-2 and in the 2010 ACD. The Postal Service's rationale for the higher passthrough was that a new costing model for parcel-shaped pieces had been inaugurated, and that this improved model produced avoided costs that were significantly different from those estimated using the former cost model. The Postal Service believed that adjusting the discounts immediately to match the new avoided cost estimates would be needlessly disruptive to parcel mailers, possibly causing sudden shifts in mailing patterns and, consequently, causing disruption to postal operations. Lower discounts thus would not promote efficient operations. Nevertheless, the Postal Service continued a pattern of steady reductions in the passthrough for this discount in Docket No. R2012-3.

In the present price adjustment, the Postal Service has reduced the passthrough for NDC irregular parcels and mixed NDC irregular parcels from 300.8 to 280.8 percent, and reduced the passthrough for SCF irregular parcels and NDC irregular parcels from 146.2 to 119.1 percent. The Postal Service believes that pushing this transition further at this time would be unduly disruptive, because this pricing category is still undergoing a major shift brought about by two opposing changes. First, the irregular parcels category no longer contains any commercial parcels. All commercial parcels moved to the Competitive product list as part of the Parcel Select transfer (Docket No. MC2010-36). Only nonprofit irregular parcels remain. Second, the changes that resulted from the elimination of the NFMs category and the introduction of Marketing Parcels caused the migration of some former nonprofit NFMs used for fulfillment purposes to the nonprofit irregular parcels category. While these two changes have opposing effects on irregular parcels volumes, they work in tandem to change the characteristics of the irregular parcels category.

In the one year since the restructuring took place, the avoided costs for both NDC irregular parcels and SCF irregular parcels have decreased. It is still not clear what final effects these changes might have on the costs and avoided costs of irregular parcels. For this reason, it is prudent to exercise caution in making changes to discounts and other cost-based pricing until the Postal Service has a clearer picture of the costs of this changed category. The Postal Service believes that, when this transition phase is complete, stable estimates of costs and avoided costs will clarify the magnitude and direction of the changes in the discounts that will better align them with avoided costs. The Postal Service believes it would better promote operational efficiency if large changes in discounts—and the operational signals given to mailers by these discounts—were avoided, until cost data specifically matched to the changed composition of its parcels products are available. Therefore, it justifies these discounts under section 3622(e)(2)(D) as needed to promote operational efficiency.

In Docket No. R2011-2, the Postal Service justified the discount for NDC NFMs compared to Mixed NDC NFMs, and for SCF NFMs compared to NDC NFMs, under section 3622(e)(2)(D). The Commission accepted this justification in Docket No. R2011-2 and in the 2010 ACD. The Postal Service's rationale for this justification in Docket No. R2011-2 was essentially the same as that described above for the NDC discount for irregular parcels. The Postal Service no longer offers an NFM mail category. In Docket No. R2012-3, the Postal Service calculated workshare passthroughs for the successor category, Marketing Parcels, using NFMs avoided costs from the 2010 ACD. The Postal Service urged caution in interpreting these relationships, since it expected that the composition of the successor Marketing Parcels category would not match that of the terminated NFMs category, as discussed below.

The Postal Service has reduced the passthrough for both of these Marketing Parcels discounts in the current price adjustment. The passthrough for NDC marketing parcels and mixed NDC marketing parcels was decreased to 180 percent, while the passthrough for SCF marketing parcels and NDC marketing parcels was decreased to 116.9 percent. Larger and more drastic changes at this time could potentially cause shifts in mailer behaviors that could, in turn, be unduly disruptive to postal operations. The Marketing Parcels category has different size and addressing standards than NFMs. Until the Postal Service has some experience with Marketing Parcels, substantial changes in the discounts for Marketing Parcels discounts and the resulting incentives should be avoided, so as to not encourage changes to mailer behaviors that may lead to inefficient operations. For these reasons, the Postal Service justifies its decision to not significantly change these discounts at this time, based on section 3622(e)(2)(D) to ensure efficient operations.

As discussed in previous price adjustment filings and ACRs, the Postal Service has been sending a strong signal to mailers through the parcels nonbarcoded surcharge to develop a fully barcoded parcels mailstream. A fully barcoded mailstream would allow the elimination of keying stations on parcel sorters, thereby increasing the efficiency of operations. The Postal Service has plans to soon require barcodes on all ground parcels. In anticipation of this move, the Postal Service believes that it is not appropriate to reduce the incentive to voluntarily barcode parcel-shaped mail pieces. It is also particularly prudent not to diminish the incentive for barcoding Standard Mail parcels, when the parcels products are experiencing significant changes, as just discussed. With the migration of most parcels from Standard Mail to Parcel Select Lightweight, and the creation of the new Marketing Parcels category, the prevalence of prebarcoding among the pieces remaining in Standard Mail is unknown. The Postal Service believes it is necessary to maintain the surcharge, and the prebarcoding incentive it signals, so as to not lose its gains in prebarcoded parcels and the efficiencies resulting from a parcels mail stream that is now almost fully barcoded.

Therefore, the Postal Service justifies not reducing the non-barcoded surcharge, based on section 3622(e)(2)(D), to ensure efficient operations.

The 5-digit discounts for all fulfillment and Marketing Parcels have low passthroughs in this price adjustment. Given the substantial changes to the Postal Service's Standard Mail parcels offerings, the Postal Service decided to mitigate the price increases for these parcels. This decision takes into account the uncertainty over the costs of the parcels categories remaining in Standard Mail, as well as the restructuring of the parcels product to focus more closely on parcels used for marketing, such as product samples. The Postal Service will continue to observe the effects of its parcels restructuring, as well as any effects of potential network consolidation and realignments, on the cost differences between its 5-digit and less-presorted parcels and, based on that information, determine what price adjustments may be appropriate in the future to better align prices with costs.

Standard Mail High Density and Saturation Letters

As discussed in the Notice of Price Adjustment in Docket No. R2011-2 (at page 39), the Postal Service prices Carrier Route letters the same as Carrier Route flats, since these letters are typically non-automatable and so would be processed and delivered similarly to flats. In this price change, the Postal Service added a new price tier called High Density Plus letters. A new worksharing relationship was created between High Density Plus letters and Carrier Route letters.

The workshare discount table shows that, in the present price adjustment, the price difference between High Density and Carrier Route letters and High Density Plus and Carrier Route letters passes through only a minority of the cost difference. The

Postal Service prices High Density and High Density Plus letters (which are required to be automation compatible) based on the market served by these letters. For this reason, both High Density and High Density Plus letters are priced independently of Carrier Route letters, although the Postal Service takes note of the passthrough that results from its pricing decisions for High Density letters and for Carrier Route flats (which determines the price of Carrier Route letters). The Postal Service sees no reason to adjust the way it prices either of these letter categories based on their price differential/discount, as long as the passthroughs for the cost differential remain below 100 percent.

Standard Mail High Density and Saturation Flats and Parcels

In addition to introducing High Density Plus Letters, the Postal Service is adding a new price tier called High Density Plus Flats. This new price tier reflects operational changes, is responsive to market needs, and encourages customers to increase volume.

In this price adjustment, the Postal Service also is completely revamping the pricing structure of Carrier Route parcels. The new pricing structure, called Simple Samples, is based on volume tiers, as opposed to point of entry discounts. As a result, in this price adjustment, High Density parcels has been eliminated as a price category. These parcels are expected to use the Carrier Route parcels pricing. In addition, as there are no discounts related to point of entry for the new pricing for Saturation parcels, there no longer are workshare discounts to compare to avoided costs. The Postal Service believes that Simples Samples will prove to be a more attractive price structure than its predecessor in Saturation and High Density parcels, given the simplified preparation and pricing structure.

Standard Mail Dropship Discounts

All of the Standard Mail dropship discounts are below their respective avoided costs, some of them substantially so.

At present, letters and flats continue to have the same dropship discounts. Differentiating those shape categories would raise the issue of the pricing of automation heavy letters, which are priced using a formula that incorporates pricing elements from both letters and flats products. The Postal Service will consider this and other issues that pertain to dropshipping of letters and flats in future price adjustments to determine the best approach and speed for differentiating dropship discounts by shape. Because part of the dropship avoided costs estimates depends on transportation costs that are subject to the volatility of fuel costs, it is expected that, even in the long run, discounts may remain below avoided costs to permit a measure of pricing stability during periods of cost volatility.

In this price adjustment there are no “point of entry” related discounts, because of the new pricing for Carrier Route parcels. Consequently, there are no longer any workshare discounts to compare to avoided costs.

<u>Periodicals</u>

Attachment B contains two workshare discount tables for Periodicals. Some passthroughs exceed 100 percent; but many of them apply to low volume categories, such as automation letters. In addition, the Postal Service is mindful of price swings which would occur if these passthroughs were changed. In any event, these passthroughs are justified under section 3622(e)(2)(C).

The Outside County table shows discounts/surcharges, cost differentials, and passthroughs for presorting. The Within County table shows the same information for presorting, prebarcoding, and dropship.

The remaining table for Periodicals shows bundle and container pricing which, in Docket No. R2006-1, was developed by passing-through part of the respective costs, rather than cost differentials. The tables show the bottom-up costs, and the price as a percentage of costs. This reflects the price structure in Periodicals, which implicitly includes many incentives for cost-reducing mail preparation behavior, but has some elements that cannot be viewed as traditional “passthroughs.” Instead, percentages are used to describe how much of a cost is recognized in a given price element.[28]

For this price increase, the Postal Service uses the flexibility of the container-bundle-piece price structure to limit the extent to which price increases for individual publications differ from the average. At the same time, incentives for efficient preparation are strengthened by reflecting a higher percentage of costs in prices that had minimal impact on those publications that were likely to experience above-average increases. This helps further the goal of more efficient containerization, while being mindful of the impact on those publications that cannot easily change preparation.

[28] The language of section 3622(e) reflects the traditional understanding of passthroughs being based on avoided costs, rather than bottom-up costs.

Package Services

Attachment B contains three tables of workshare discounts, cost avoidances, and passthroughs for Package Services.

Media Mail and Library Mail

All workshare discount passthroughs for Media Mail and Library Mail are at 100 percent. Barcode discounts were eliminated in Docket No. R2012-3. so there are only two remaining discounts: Basic Presort and 5 Digit Presort. The proposed presort discounts match the discounts calculated in the most recent Annual Compliance Determination

Bound Printed Matter Flats and Parcels

All workshare discount passthroughs for Bound Printed Matter Flats and Parcels are either at or below 100 percent. The carrier route discounts remain unchanged in this price adjustment for BPM Parcels but was increased from 0.098 to 0.099 for BPM Flats. The Dropship Discount at the DNDC level was reduced from 0.174 to .0170, consistent with the Commission's FY2011 Annual Compliance Determination.

IV. MCS Product Description Changes

Rule 3010.14(b)(9) requires that this Notice include all the changes to the product descriptions within the MCS that will be necessary to implement the planned price adjustments. Attachment A shows the new prices and related product description changes incorporated into a revised draft of the market-dominant section of the MCS.[29]

[29] This draft is based on the most recent draft MCS provided by the Postal Service in Docket No. RM2011-8, on July 29, 2011. The classification changes are shown in legislative format.

Along with minor formatting and wording changes, the substantive classification changes for this filing include the following:

- Add new price category in First-Class Mail to include blended single-piece price for residual 1-2 ounce pieces from Presort mailings.
- Add a handling charge for foreign-origin, inbound direct entry First-Class Mail Single-Piece Machinable Letters, Single-Piece Postcards, Single-Piece Flats, and Single-Piece Parcels tendered by foreign postal operators, subject to the terms of an authorization arrangement.
- Add notes and Glossary definition for International Forever stamps
- Add Standard Mail High Density Plus price category in between current High Density and current Saturation price categories
- Redesign price categories for parcels in Standard Mail Saturation and High Density Flats/Parcels, and Standard Mail Carrier Route products, so that they are simplified for the product sample market.
- Correct the maximum size limitations for Standard Mail parcels
- Eliminate Detached Address Label optional feature listing in Standard Mail Carrier Route, to conform with change in Docket No. R2012-3
- Expand Picture Permit option to First-Class Mail and Standard Mail flats
- Eliminate Mobile Barcode Promotion, which ended August 31, 2012
- Add Mobile-Coupon/Click-To-Call, BRM/CRM, Emerging Technology, Samples, Picture Permit, and Mobile Buy-It-Now Promotions
- Replace Parcel Post with Alaska Bypass Service, change the maximum weight, and remove Zones 4 to 7 pricing
- Eliminate classification and fee for Periodicals Additional Entries

- Allow notice of attempted delivery for Certified Mail, COD, Insurance, and Registered Mail to be provided to the addressee by electronic means, rather than just by paper notice left at the address.

- Add Standard Post (the new name for Parcel Post) as a separate product to the availability lists for the appropriate special services, and to the Delivery Confirmation service price schedule

- Eliminate selected premium options from Stamped Envelopes

- Remove International Outbound Restricted Delivery and International Outbound Reply Coupons, optional services for which, over the years, volume and revenue have steadily declined.

- Add Change-of-Address Customer Confirmation Letter Reprint and Postal Explorer CD-ROM, two services which previously have been omitted from the MCS, to Address Management Services

- Add footnotes and MASS IMb Quality Testing fee for MASS Certification service

- Update Address Management Services language for Residential Delivery Indicator (RDI) service

- Remove language for FASTforward MLOCR (Multi-line Optical Character Reader) service, which is no longer available

- Expand credit card authentication fee so that it applies to all credit card authentications, rather than just those for filing Change-of-Address requests

Notice of the changes to the DMM implementing these new features are being placed on USPS.com and will be published in the *Federal Register* shortly.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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